

NSC BRIEFING

2 November 1955

US AID

Recent US and International Bank financial aid to
Brazil includes:

June 1952	IBRD loans for power and railroad	37,500,000
June 1952	EXIM loans for power and railroad	56,740,000
April 1953	EXIM loan 1953 for commercial backlog	300,000,000
April 1953	IBRD loan to improve highway system	3,000,000
Dec 1953	EXIM loan for railroad	8,600,000
Oct 1954	loan by group of New York banks	200,000,000
Feb 1955	EXIM credit for essential imports	75,000,000
June 1955	EXIM credit for railroad and ore handling equipment	<u>3,920,000</u>
		684,760,000

DIA and DOS review(s) completed.

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BACKGROUND - BRAZILIAN ELECTORATE

Population	58,000,000
Registered voters	15,000,000
Probable total vote for 3 October 1955	8,500,000 - 9,000,000

Despite compulsory voting law, abstention usually runs almost one-third because fines due not normally collected. Increased abstention in 3 October presidential election accounted for by introduction^{yo} Australian ballot which made literacy qualification more widely operative than previous voting system. (voters obliged to read well enough to find names of desired candidates on ballot).

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2 NOVEMBER 1955

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BRAZIL

- I. In 3 October presidential election, with count almost complete, clear that Juscelino Kubitschek has won presidency and Joao Goulart the vice-presidency by small pluralities--Kubitschek's margin slightly greater than Goulart's.
 - A. Both were candidates of coalition of Brazil's leading party--the Social Democratic Party (PSD)--and the Brazilian Labor Party (PTB).
 - B. Were also supported by two lesser parties, plus the well-organized but outlawed (since '47) 120,000 strong Communist Party (estimated able to deliver 4-500,000 votes).
 1. Kubitschek, but not Goulart, also supported by right-wing Republican Party.

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II. Prospects of successful court challenge

of election results now considered poor.

- A. Supporters of Tavora have been reported planning such court challenge.
- B. However, Chief Justice of Superior Electoral Court--official vote counter --stated on 20 October, "election can only be challenged if number of votes mentioned in charges of irregularities corresponds to number by which a candidate has won."

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III. Prospects of coup by military to prevent inauguration of pair (in Jan '56), once deemed probable, now also waning.

- A. Strong, long-standing opposition of military to Kubitschek and Goulart is based on ties of both to late President Vargas and his supporters.

B. Military particularly dislike Goulart's

record as Vargas' Minister of Labor
(June '53 to Feb '54, when ousted by
military pressure) during which time he:

1. Cooperated with Communists to
foster development of labor as
a political force.
2. Sponsored (1954) a 100% hike in
minimum wage, which meant that
common laborer was paid more than
an army master sergeant.

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- B. We believe that, although the possibility of a military coup cannot be ruled out completely, the military leaders will be reluctant to abandon their traditional role of guardians of constitutional order and others, who favor a coup, lack strong leadership.
- C. It is believed, therefore, that Kubitschek and Goulart will almost certainly take office as scheduled.

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D. Following their inauguration, however, the armed forces will watch the new administration very closely for any missteps that threaten national stability.

V. Besides this threat, Kubitschek's administration faces several pressing problems: the chief ones--inflation and foreign exchange shortages, the crucial petroleum question, and, finally, the new administration's relations with the splintered Brazilian Congress.

A. As to inflation, the cost of living in Rio has more than trebled since 1948.

1. Brazilian inflation has been fostered since 1947 by a combination of government deficits and expansion of credit.

2. Lag of wages behind prices during this time was largely met in July

'54 when minimum wage was doubled.

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3. Since then, however, labor's gain

largely erased by further price
rises, and workers restive.

B. As to foreign exchange, Brazil's economic growth depends upon its capacity to import necessary capital goods and raw materials, and this capacity is limited by the volume of Brazilian exports.

1. Coffee makes up about two thirds of exports; today's high prices for coffee unlikely to continue.
2. Also, to allow needed imports to be purchased cheaply, official rate of the cruzeiro has been maintained at artificially high level.
3. This overvaluation of the cruzeiro has weakened competitive position of other Brazilian exports.

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4. Net deficit on investment account

has also added to Brazil's foreign exchange problem--in 1954, as follows:

<u>RECEIPTS</u>		<u>PAYMENTS</u>	
New Investment	\$69 million	Investment Withdrawn	\$76
Remittances Received	<u>7 million</u>	Remittances Sent	<u>141</u>
	\$71 million		\$217

Net deficit on investment account:

\$141 million.

5. In 1954, total foreign exchange deficit was \$350 million.

Cumulative foreign exchange obligation now \$2 billion.

C. Petroleum problem another open sore in Brazilian economy.

1. '54 consumption averaged 160,000 barrels per day (an 84% increase over '50).

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2. Brazil's own domestic output meets less than 2% of demand.
3. Oil imports in '54 cost about \$250 million (one-third of Brazil's dollar earnings).

D. At least \$1 billion would be needed to develop Brazil's potential petroleum resources to meet present demand.

1. Of this, over \$700 million would have to be spent abroad for equipment and technical labor.
2. Brazil alone cannot afford such an expense.
3. Even if foreign capital participated, volume output would probably not be reached for another five-ten years.

E. At present, foreign petroleum companies in Brazil are restricted to distribution and marketing, while petroleum exploration and development legal monopoly of PETROBRAS (established by 1953 law).

1. This is a government (majority) - private capital (minority) corporation, in which native Brazilians alone may invest.
2. Whole question of exploitation Brazil's oil resources is hot political issue.

F. Final Kubitschek problem involves relations with Congress, from which body no Brazilian president has had dependable support in past 25 years.

1. On paper, total of five parties nominally supporting Kubitschek for presidency have 44 of 63 Senate seats, 201 of 326 in Chamber.
2. However, this does not presage solid support in Congress, because, even in presidential campaign, "supporting" parties were divided.
3. Kubitschek's primary support (PSD) was about 85% for him, while Goulart's party (PTB) was far more badly divided.

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G. Present Congress (elected in Oct '54)

will stay until '58. Kubitschek's major congressional problem may arise over status of Goulart.

1. If Kubitschek gives Goulart free hand to cooperate with Communists in building up political labor movement, he courts opposition of anti-Goulart elements in Congress, as well as military coup.
 2. If Kubitschek curbs Goulart, he may lose support of pro-Goulart elements in Congress.
 3. Kubitschek, a shrewd politician, should be able to assess whether pro- or anti-Goulart elements are strongest and behave accordingly.
- In our belief, antis outweigh pros.

VI. Based on what we know of Kubitschek, we expect that he will follow these policies:

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A. On the economic scene, Kubitschek's

long-range solution to problem of inflation likely to be stepped-up expansion of production.

1. His governorship of Minas Gerais (1951-55) was marked by extensive construction of power facilities, highways in effort to stimulate industrial growth there.
2. One slogan during campaign for presidency: "Power, transportation and food."
3. In 21 Oct interview with US newsmen, he mapped out broad program of building roads, improving Brazil's inadequate railway system, producing more electricity, steel, aluminum and fertilizer, added that program will require \$500 million in equipment over the next five years, mostly from US.

4. Since Kubitschek is opposed to policy of austerity to help finance economic expansion, inflation will almost certainly continue, and balance of payments problem not likely to improve substantially in next few years.

B. Kubitschek wants US help.

1. Told newsmen he was confident that if Brazil "presents to the United States a realistic explanation of our problems and the solutions we plan, we will get the necessary financial aid."
2. Took similar line to Ambassador Dunn on 18 October, adding that US was only country which could be of assistance to him in his economic plans.

C. Kubitschek will almost certainly attempt to continue Brazil's traditionally

1. He will probably cooperate with the
US on major international political
issues in the UN and the OAS.
2. In return, he will expect US
assistance for his development
program.

D. He will try to solve petroleum dilemma.
Kubitschek has thusfar handled ticklish
petrobras issue very cautiously
because:

1. Both Communists and conservative
nationalists, who supported him in
presidential campaign, are strongly
opposed to any foreign participation
in Brazil's petroleum development.
2. Communist-originated slogan, "the
oil is ours," is popular throught-
out Brazil.
3. But Kubitschek statements have im-
plied he will use other means to
develop Brazil's oil if Petrobras
fails to prove itself in year's

4. To avoid political risk of attempting repeal of Petrobras law, he may instead seek to by-pass it.

E. Because economic problems outshadow all others, new government's actions on Communist problem likely receive low priority.

1. Communists, with possible Goulart assistance, will seek to increase influence in organized labor and bureaucracy.
2. Kubitschek will probably resist these efforts, both as matter of expediency in his tense relations with the military, and as a matter of possible personal principle.
3. Told Dunn on 18 Oct that, despite Communists' support during campaign, he has no commitments to them.

4. Further stated that, as congress-
man from Minas Gerais, had voted
to outlaw Commies in '47 and still
felt same way.
5. Pointed out he was "practicing
Catholic," which entails anti-
Communism.
6. Concluded with statement of his
belief in private enterprise.

AFP

News Flash from Rio de Janeiro reports that Brazilian President Cafe Filho has suffered "a light heart attack". If Filho is incapacitated, by Brazilian law his successor until Kubitschek's inauguration on 31 January is Speaker of Chamber of Deputies, Carlos Luz.

Luz is political middle of roader (Social Democrat), anti-Kubitschek, and probably pro-American.

THE SITUATION IN PALESTINE

- I. ~~Egypt's formal agreement on 21 September~~
to purchase large quantities of Soviet
bloc arms and the subsequent bilateral
military defense agreements with Syria
and Saudi Arabia have roused Israeli anx-
~~ieties and fears.~~ Tel Aviv's determination
not to be caught napping ^{by Egyptian arms deal} has resulted in
turn in actions which have heightened
~~Egyptian suspicions.~~ ^{tension}
- II. Israel now making extensive efforts to
counter original Egyptian moves.
 - A. Tel Aviv has approached Western powers
to get more arms, more security
guarantees and Western pressures
against Egypt. ~~Israel~~ -
 - B. Tel Aviv also made representations to
Czechs and Russians. No evidence of
success. Apparently given only

has reportedly launched a loan drive for arms throughout international Zionist circles. Internal drive for contributions for arms purchases is meeting enthusiastic response.

C. Israeli cabinet in emergency session

in late October voted \$50,000,000

But doesn't have it
for arms. Reportedly interested in

French jets and light tanks. Have

D. Israel

urging US also indicated interest in large

to join Baghdad

Pact to control purchases in Italy. [Will get some money]

Jordan-Syria and split Arab World.

III. On frontier Israel is assuming tough

posture and is increasing its military forces.

A. According to American military attache

Tel Aviv, Israel is engaging in partial

mobilization with emphasis on trans-

portation equipment. Attache notes

that activity seems directed not only

at Egyptian frontier but in all

directions.

- B. Israel has approximately 80,000 in regular army. 120,000 active reserves can be called up and be in front positions within 48 hours.
- C. Israel is now divided into three military commands, north, central, and south. Southern command recently recreated and is viewed by American observers as preparation for more action in south.
- D. In the southern and central commands available for action against Egypt, Israel has units with a strength of 120,000 when fully mobilized. Part of this strength could also be used against Jordan.
- E. In the north, Israeli units with strength of 80,000 when fully mobilized could act against Syria and Lebanon.

F. American military observers have agreed that it has an effective military organization decidedly superior to any Arabs and capable of handling at this time any or all of the Arabs simultaneously.

IV. In terms of Israel, Arab military strength is numerically impressive but is definitely inferior in those qualities which make an effective army.

A. Egypt with an army strength of 76,000 has recently sent considerable reinforcements toward the Israeli frontier. It now has about 33,000 troops in positions near the frontier. In any war with Israel, Egypt's defeat in an open war at this time appears to be inevitable. Aside from Israeli military superiority, Egypt could not adequately support its troops on the Palestine front in terms of the supply

B. In Jordan, aside from the lightly armed British trained Arab Legion of 18,700, there are no effective military forces despite a formal military strength of 43,000. The Legion is probably capable of putting up a good fight, but is entirely inadequate for protecting the Jordanian frontier. The Jordanian guard which is regularly charged with frontier patrol duty at present is poorly armed and badly disciplined.

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C.

[REDACTED]

At

present, Syria has about 25 thousand troops near the frontier out of a total strength of 39,200. The extreme political instability in Syria and the army's preoccupation with politics would make the army a relatively ineffective organization. It also seemingly lacks

[REDACTED]

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D. Lebanon with a total of less than 7,000 in its armed forces is militarily unimportant. Saudi Arabia's newly arranged alliance with Egypt is important only because of the financial support Saudi Arabia can give Egypt. Saudi troops, some 17,000, are poorly officered and inadequately equipped.

C. Israeli public statements indicate intent to open Gulf of Aqaba by force have also alarmed Egypt.

VI. Major border incidents during past two weeks.

A. Syrian-Israeli border.

1. 18 October Israel claims Syria murdered or kidnapped Israeli soldier.

2. 22/23 October, Israeli forces
ambush 3 Syrian vehicles North end
Lake Tiberias--3 Syrians killed,
6 wounded, 6 captured.
3. 26 October, Syrians penetrated
Israeli territory and clashed with
Israeli police patrol. One Syrian
believed killed, no Israeli
casualties.
4. 27 October, Syria claims Israelis
opened fire south Banias wounding
farmer.

B. Egyptian-Israeli border.

1. 16 October, Egypt fires on 2 UN
delegates accompanied by Israeli
unit.
2. 26 October, Egyptian force attacked
and captured Israeli police post
in El Auja, 1 Israeli killed, 3
wounded, 2 Israeli policemen
captured.

3. 28 October, Israeli attacked

Egyptian post El Kuntilla in Sinai,
south of El Auja, 5 Egyptians
killed, 23 Egyptians captured,
4 Israelis wounded.

4. 31 October, Egyptians raid Israeli
settlement near Gaza strip.

C. Jordanian-Israeli border - no major
incidents.

D. Lebanese-Israeli border - no major
incidents.

VII. Israeli military buildup, the developing
war psychosis among its people and its
tough retaliatory policy make certain that
incidents and probably major clashes will
continue to occur.

A. Under these conditions a major military
engagement might develop without either
side intending and also without direct
orders from Cairo or Tel Aviv. Despite
the psychological campaign which Israel

is carrying on--threatening war if something isn't done to assure its security--Israel will probably continue in the immediate future to seek its ends through diplomatic maneuvers and international pressures. Egypt, despite the appearance of Soviet arms on the docks of Alexandria is aware that this equipment has not yet given it military superiority over Israel.

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ISRAEL'S NEW GOVERNMENT

- I. David Ben Gurion's return as Prime Minister and Defense Minister makes certain that Tel Aviv will pursue at this critical moment an unrelentingly tough border policy coupled with shrewd diplomatic maneuvering.
 - A. Ben Gurion at 69 has apparently recovered from mild cerebral hemorrhage of a month back.
 - B. Ben Gurion who's espousal of firm retaliation on Israel's frontier has cabled him an "activist" is also Israel's ablest diplomat and most experienced negotiator.
 - C. His first public pronouncements on resuming control, a tough warning that Israel will continue to defend itself and an invitation to Nasser and the Arabs to meet at the conference table--which they will automatically

reject-- indicates in a sense what
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his approach will be.

- II. His five party coalition cabinet which may be characterized as slightly left of center controls 75 out of 120 seats in parliament. This is adequate particularly in the present mood in Israel which is emphasizing readiness for war and a closing of ranks. Ben Gurion's decisions in terms of the war crisis will receive practically universal support.
- III. The two leftist labor parties in his coalition, MAPAM and Ahdut Haavoda are outspoken in opposing military alliances with the West and Ahdut Haavoda is especially interested in a militant border policy. Should frontier tensions lessen, Ben Gurion will be likely to have trouble with these members of his government.

NOTE: Distribution of seats among five coalition members as follows:

40 seats MAPAI-slightly left of center, party in control government.

9 seats MAPAM-Labor party-leftist

10 seats Achdut Haovada-Labor party-leftist

11 seat Hapeol-moderate religious party slightly right

5 seat Progressives-Center party, liberal independents.

In opposition most important are Herut, the activist rightists with 15 seats and General Zionists slightly rightists, characterized as businessmen's party with 13 seats.

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NSC BRIEFING

3 Nov 55

**December Elections Practically
Assured in France**

The 330-211 vote of confidence on 3 November approving French premier Faure's proposal to advance National Assembly elections probably assures voting on 11 December, even though the bill must still go to the upper house. Elections will be held under the 1951 single-ballot electoral law which puts a premium on party alliances.

Although the vote occurred after the midnight deadline which would have forced the Council of the Republic to act within a week, the council is not in fact expected to present difficulties.

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Normal procedure

now applied, under which the council can delay its decision two months, with an additional 100 days to reach a compromise with the assembly. Since the council is preponderantly conservative, however, and in the main sympathetic to the views of the Independent deputies who sparked the drive for early elections, approval will probably still be forthcoming within the over-all three-week period allowed under the urgency-procedure for final ratification by both houses.

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Premier Faure had called for a vote of confidence when assembly discussion of electoral reform appeared to be hopelessly bogged down. Most deputies professed to prefer a new election procedure, but no majority could be found for any of the twelve considered in the three-day debate.

The decision of the Communists to vote for the government's proposal seems to have been a decisive factor, although the margin of victory was slightly greater than the 98 votes cast by their bloc. The party hopes to benefit from the lack of unity among the non-Communist left and the center parties which formed electoral alliances against it in 1951.

In all but the largest election districts, where pure proportional representation prevails, the present law permits one party or an alliance of parties to take all the seats if they get a majority of the votes. This system was devised to prevent the Communists and the Gaullists from getting their full share of the seats in the 1951 elections.

There is real danger now, however, that the Communists will succeed in forming alliances with some Socialist federations on the local level. The Communists stand to gain, moreover, even without such alliances, because the center parties are less united than in

[redacted]

1951, and will probably have more difficulty in forming alliances.

The center and rightist parties hope to benefit from the disintegration of the Gaullist Rally, but their major aim in pressing for early elections was to hamper Mendes-France's attempt to form a left-center majority. Mendes-France will probably seek to win delay in the Council of the Republic, starting his maneuvers in this direction at the Radical Socialist party congress now in session. [redacted]

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2 NOVEMBER 1955

BACKGROUND--SITUATION IN PALESTINE

TROOP AND MATERIEL STRENGTHS OF THE GROUND FORCES
OF THE ARAB STATES AND ISRAEL

<u>Country</u>	<u>Army Strength</u>	<u>Medium Tanks</u>	<u>Light Tanks</u>	<u>Armored Cars</u>	<u>Mortars, Towed FA, 75-mm. & Larger</u>	<u>AA Arty 40-mm. and Larger</u>	<u>Self- Propelled Artillery</u>
Egypt	76,000	149		90	516	114	8
Iraq	53,000	31		104	358	117	
Jordan	43,600	25		358	311	36	84
Lebanon	6,660	23	22	81	120	24	6
Saudi Arabia	17,000			104	237		
Syria	39,200	111	15	156	394		45
Yemen	<u>25,600</u>	<u> </u>	<u> </u>	<u> </u>	<u>104</u>	<u> </u>	<u> </u>
Total Arab	261,060	339	37	893	2040	291	143
Total Israel	83,600	192	130	138	2098	48	

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BACKGROUND - SITUATION IN PALESTINE

Arab-Israel Military Equipment

I. Aircraft

A. Israel: Total aircraft - 288.

Fighters - 80 (25 jets - 12 MD 4-50's -
French; 13 Meteors - British) (53
piston - F-51's - American - Spitfires
- British)

Bombers - 58 (55 light - Mosquitoes -
British; 3 medium - B-17's - American)

Combat ready - 25 jet and 14 piston
fighters, 27 light and 1 medium bomber.

B. Egypt: Total aircraft - 260.

Fighters - 64 (52 jets - Meteors, Vam-
pires - British; 12 piston - Spitfires
- British)

Bombers - 6 medium (Lancasters -
British)

Combat ready - 24 jet and 7 piston.
fighters, 4 medium bombers.

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C. Syria: Total aircraft - 166.

Fighters - 71 (18 jets - Meteors -
British; 53 piston - Fiat; Macchi -
Italian; Spitfires-British)

Bombers - none.

Combat ready - no jets, possibly 24
piston fighters.

D. Jordan: Total aircraft - 21.

No combat types.

E. Lebanon: Total aircraft - 28.

Fighters - 5 jets - Meteors - British.

Bombers - 4 light - Savoia Mancheti -
Italian.

Combat ready - 2 jet fighters, 4 bombers.

F. Iraq: Total aircraft - 147.

Fighters - 61 (21 jets - Meteors, Vam-
pires - British; 40 piston - Hawker
Furies - British)

Bombers - none.

Combat ready - 21 jet and 36 piston

fighters

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G. Saudi Arabia: Total aircraft - 20.

Fighters - none.

Bombers - 6 light - B-26's American.

Combat ready - 6 bombers are in flying
condition, though competent pilots are
probably not available for combat
duty.

Total Arab States aircraft - 542.

Combat types combat ready - 128.

Total Israel aircraft - 288.

Combat types combat ready - 67.

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